GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2553
ANSWERED ON:04.12.2009
INTEREST ON SMALL SAVINGS
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Will the Minister of FINANCE be pleased to state:

(a) whether the deposits in small saving schemes being run through post offices have reduced due to reduction in interest rates during the last three years;

(b) if so, the details thereof;

(c) whether the banks are offering higher rate of interest on small saving schemes as compared to the post office;

(d) if so, the details thereof and if not, the reasons therefor;

(e) whether the Government is considering to make the interest rate of post office small saving schemes equal to those of the banks;

(f) if so, the details thereof and if not, the reasons therefor; and

(g) the corrective measures taken/being taken by the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE : SHRI NAMO NARAIN MEENA:

(a) & (b): Interest rates on Small Saving Schemes have remained unchanged since 1st March 2003. The gross small savings collections from post offices and Banks during 2006-07, 2007-08 and 2008-09 were Rs. 1,82,181 crore, Rs. 1,47,709 crore and Rs. 1,58,393 crore (Provisional) respectively. The decline in gross collections under various small saving schemes appears to reflect, inter-alia, investors' preference for alternative saving instruments during these years.

(c) to (f): Banks have been given freedom by Reserve Bank of India to fix their own interest rates on domestic term deposits of various maturities. Interest rates on Small Savings Schemes are Administered Interest Rates, and are benchmarked to the average annual yield on Government Securities of comparable maturity in the secondary market, with a suitable spread subject to a maximum of 50 basis point over the benchmark yield, depending upon the maturity and liquidity of the instruments. Therefore, interest rates of small savings schemes are not comparable with the interest rates being offered by the Banks for their various term deposit schemes.

There is no proposal at present with the Government to make the interest rate of Small Savings Schemes equal to those of the banks.

(g): Central and State Governments take various measures from time to time to promote and popularise small saving schemes through print and electronic media as well as holding seminars, meetings and providing training to the various agencies involved in mobilising deposits under these schemes. As part of this ongoing exercise, Government has taken the following steps to make the small savings schemes more attractive and investor friendly:-

(i) The restrictions on opening of more than one account during a calendar month under the Senior Citizens Savings Scheme has been removed with effect from 24th May, 2007.

(ii) All categories of pensioners have been allowed to open and maintain 'Pension Account' under Post Office Savings Account Rules, with effect from 11th July, 2007.

(iii) The penalty on pre-mature withdrawal of deposits under the Post Office Monthly Income Account (POMIA) scheme has been rationalised from 3.5% to 2% on withdrawal on or before expiry of three years and 1% on withdrawal after expiry of three years.

(iv) The maximum deposit ceilings of Rs. 3.00 lakh and Rs. 6.00 lakh under the Post Office Monthly Income Account (POMIA) scheme has been raised to Rs. 4.5 lakh and Rs. 9.00 lakh in respect of single and joint accounts respectively.

(v) Bonus at the rate of 5 per cent on the deposits made under Post Office Monthly Income Account (POMIA) Scheme on or after 8th December, 2007 upon the maturity of the deposit, has been reintroduced.

(vi) The benefit of Section 80C of the Income Tax Act, 1961 has been extended to the investments made under 5-Year Post Office

Time Deposits Account and Senior Citizens Savings Scheme, with effect from 1.4.2007.

(vii) Various measures are taken to promote and popularize these schemes through print and electronic media as well as by holding seminars and meetings, providing training to the various agencies involved in mobilizing collection in Small Savings Schemes, etc.

(viii) A website of the National Savings Institute under Government of India, Ministry of Finance has also been launched to facilitate interface with the public through wider dissemination of information on small savings and on-line registration and settlement of investors grievances. The website address is nsiindia.gov.in.